

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF MOUNTAIN RURAL)	
TELEPHONE COOPERATIVE CORPORATION,)	
INC. FOR AN UPWARD ADJUSTMENT IN)	CASE NO. 7960
RATES AND CHARGES FOR TELEPHONE)	
SERVICE)	

O R D E R

On September 18, 1980, Mountain Rural Telephone Cooperative Corporation (hereinafter Applicant) filed an application with this Commission requesting authority to adjust its rates in two phases. The phase-one adjustment would increase Applicant's revenue by approximately \$343,875 on an annual basis, an increase of 20.6%. The phase-two adjustment would increase Applicant's annual revenue by an additional \$375,945. The additional revenue is not the result of a further adjustment of service rates, but will be provided through the conversion of subscribers from multi-party to one party service. Applicant stated that the additional revenue was required to maintain its financial stability and to meet the costs of upgrading its system to provide one party service in all areas.

The Commission scheduled the matter for hearing January 13, 1981, and ordered Applicant to give notice of the hearing and the proposed rates. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky.

On September 22, 1980, the Consumer Intervention Division in the office of the Attorney General filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

COMMENTARY

Mountain Rural Telephone Cooperative Corporation is a consumer-owned utility providing telephone service to approximately 8,440 subscribers in the Kentucky counties of Bath, Elliott, Menifee, Morgan, and Wolfe.

TEST PERIOD

Applicant proposed and the Commission has adopted the twelve month period ending June 30, 1980, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

VALUATION

Net Investment

The Commission finds from the evidence of record that Applicant's Net Investment at June 30, 1980, is as follows:

Utility Plant in Service	\$ 8,902,549
Construction Work in Progress	2,438,150
Total Utility Plant	<u>\$ 11,340,699</u>

Add:

Materials and Supplies	\$ 147,799
Prepayments	21,321
Sub-Total	<u>\$ 169,120</u>

Deduct:

Depreciation Reserve	\$ 1,348,916
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Net Investment	<u>\$ 10,160,903</u>
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In calculating the Net Investment, the Commission has adjusted Plant in Service and Construction Work in Progress to test year-end levels. The Commission is of the opinion that Applicant's projected levels for these accounts are speculative in nature and therefore, not acceptable for rate-making purposes. The Commission has further adjusted Applicant's proposed rate base to include Prepayments, which the Commission finds to be a proper rate base component, and to exclude the provision for working capital based on Applicant's advance billing for local service. Applicant's proposed depreciation reserve has been increased to reflect the revised pro forma depreciation expense adjustment.

Capital Structure

The Commission finds from the evidence of record that Applicant's Capital Structure for rate-making purposes is as follows:

Equity	\$ 2,142,315
Long Term Debt	<u>\$ 9,895,295</u>
	<u>\$12,037,610</u>

The Commission has adjusted Applicant's proposed long term debt to reflect only those funds that had been advanced through the hearing date for this proceeding.

The Commission has given consideration to these and other elements of value in determining the reasonableness of the rate increase proposed herein.

REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses, as reflected on its Exhibit B. The adjustments were proposed to reflect increases in revenues, salaries and wages, depreciation, amortization, property taxes, and interest expense. The Commission finds that the proposed adjustments to revenues based on anticipated customer growth are speculative in nature and therefore, are not accepted herein for rate-making purposes.

The Commission has further adjusted revenues and expenses in the following manner:

1. Local service revenues have been increased by \$2,194 to reflect the elimination of employee concession services for rate-making purposes. The Commission is of the opinion that ratepayers should not be required to pay an increased rate to return this lost revenue to the Applicant.

2. Applicant proposed adjustments to operating expenses of \$36,148 to reflect wage increases over a two-year period, which is the timetable for Applicant's upgrading construction. The Commission is of the opinion that any wage adjustment beyond the evidentiary period of the instant case cannot be accepted for rate-making purposes. Therefore, Applicant's adjustment has been reduced by \$18,074 to reflect only those wage increases within the aforementioned evidentiary period.

3. Applicant proposed adjustments of \$322,755 and \$57,034 to depreciation and property taxes, respectively, based on projected plant in service balances at completion of Applicant's construction to upgrade its system. The Commission finds such long-range projections to be speculative and unreliable and therefore, not acceptable for rate-making purposes. The Commission has reduced these adjustments by \$299,761 and \$47,695, respectively, to reflect the expenses mentioned herein based on plant in service balances at test year-end.

4. Applicant proposed to adjust interest expense on long-term debt by \$292,475 based on the draw down of all REA construction funds approved, but unadvanced at the end of the test year. The Commission has reduced this adjustment by \$237,619 to reflect only the interest expense on those funds advanced through the hearing date for this proceeding.

5. Operating expenses have been adjusted by \$780 which is the portion of Applicant's advertising expense which meets the definition of Institutional Advertising as per the Commission's regulations regarding advertising expenditures not accepted for rate-making purposes.

6. Operating expenses have been further adjusted to exclude \$2,442 for donations and contributions. The Commission is of the opinion that these expenditures produce little if any benefit to ratepayers and therefore, are not accepted for rate-making purposes.

The effect on Net Income of the adjustments is as follows:

	<u>Actual Test Period</u>	<u>Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$1,672,462	\$ 2,194	\$1,674,656
Operating Expenses	<u>1,246,689</u>	<u>108,160</u>	<u>1,354,849</u>
Operating Income	\$ 425,773	<u>\$(105,966)</u>	\$ 319,807
Interest Expense	351,231	54,856	406,087
Interest Income	31,582	-0-	31,582
Net Income	<u>\$ 106,124</u>	<u>\$(160,822)</u>	<u>\$ (54,698)</u>

RATE OF RETURN

The rate of return on Applicant's Net Investment, established herein for the test year, was 4.02%. After taking into consideration the revised pro forma adjustments, Applicant would realize a 3.15% rate of return. The Commission is of the opinion and finds the adjusted rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis, Applicant should be allowed to increase its annual revenue by approximately \$343,875. This additional revenue will provide Net Income of approximately \$289,197 and produce a rate of return of 6.53%.

RATE DESIGN AND RATES

The rates and charges proposed in Applicant's phase-one Exhibit I will produce additional revenues of \$343,875 on an annual basis. The Commission is of the opinion, however, that increased revenues will be necessary in the near future to meet the increases in costs related to Applicant's construction for the purpose of upgrading all subscribers to one party service. Therefore, the Commission finds that Applicant should, as proposed in phase-two Exhibit I, begin charging the rate for a one party line as subscribers are converted to one party service. Furthermore, the Commission concurs with Applicant's intent to upgrade its service by routes as was determined through cross examination of Applicant's general manager.

The Commission is of the opinion that an increase in coin telephone charges is appropriate at this time. With substantial increases in plant costs and operating expenses during the time in which Applicant has been charging ten cents for coin telephone calls, the general ratepayers, through their monthly bills for basic telephone service, have been subsidizing the use of coin telephones. Therefore, the Commission finds that an increase, from ten cents to twenty-five cents,

for coin telephone charges is an appropriate means of allocating a portion of the costs of this specific service to those for whom it is incurred. The Commission, finds therefore, that Applicant's coin telephone charge should be increased to twenty-five cents at such time as Applicant increases its basic rates and charges as ordered herein.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges proposed by the Applicant and set out in Appendix "A" attached hereto and made a part hereof are the fair, just, and reasonable rates for Applicant and will produce gross annual revenues of \$2,018,531, based on test year-end customers.

IT IS THEREFORE ORDERED, that the rates and charges proposed by Mountain Rural Telephone Cooperative Corporation and set out in Appendix "A" attached hereto and made a part hereof, are approved for service on and after the date of this Order.

IT IS FURTHER ORDERED, that Mountain Rural Telephone Cooperative Corporation, in accordance with the Commission's finding herein, shall increase its coin telephone charge from ten cents to twenty-five cents as set out in Appendix "A" attached hereto and made a part hereof.

IT IS FURTHER ORDERED, that Mountain Rural Telephone Cooperative Corporation shall continue its plan for upgrading its system to provide one party service to all subscribers and accordingly, shall charge subscribers the rate for one party service as each cable route is converted.

IT IS FURTHER ORDERED, that Mountain Rural Telephone Cooperative Corporation shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 20th day of February, 1981.

UTILITY REGULATORY COMMISSION

Did Not Participate
Chairman

Albert G. Mann
Vice Chairman

Mary Ray Oaken
Commissioner

ATTEST

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7960 DATED

The following rates are prescribed for the customers in the area served by Mountain Rural Telephone Cooperative Corporation, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Local Exchange Service

Applicable to all customers

	<u>Individual Line</u>	<u>Two-Party Line</u>	<u>Four-Party Line</u>	<u>Extension Station</u>
Business	\$18.50	\$ 9.75	\$ 9.00	\$ 1.75
Residence	\$11.00	\$ 7.75	\$ 7.50	\$ 1.75

Pay Station (Guaranteed) \$18.50 per Month

Miscellaneous Services

	<u>Monthly Rate</u>
Color Charge	eliminated
Extra Listings	\$ 0.50
Ringers	eliminated
Loudringing Bells	0.75
Outside Horn and Relay	4.00
Amplifier Type Handset	2.00
Buzzer	1.00
Push Button	eliminated
Automatic Dialer	10.00
Hands-Free Phone (Speaker)	7.50
Foreign Exchange Listing	0.50
Nonpublished Number	1.00
Unlisted Number	0.50
Touch Tone	4.00
Off Premise Extension	1.75
Data Coupler	15.00
Voice Coupler	2.50
Off Premise Extension	1.75
Trendline Telephone	1.75
Princess Telephone	1.75
Ericofon Telephone	1.75

Nonrecurring Charges

	<u>Rate</u>
Inside Move-Key System/PABX	20.00
Installation (New Phone)	15.00
Install Extension/with main station	3.00
Install Extension	10.00
Restoral Service Charge	12.00
Inside Move	10.00
(each additional move)	5.00
Directory Listing Change	6.00
Number Change	8.00

Nonrecurring Charges (continued)

	<u>Rate</u>
Reinstallation	\$15.00
Installation Jacks and Plugs	10.00
Change of Type of Instrument	8.00
Long and Retractable Cords	10.00
Color Change	8.00
Return Check Charge	5.00
Installation - Amplifying Handset	12.00
Installation - Radio Loops	10.00
Installation - Special Circuit	10.00
Installation - Automatic Dialer	10.00
Installation - Electronic Secretary	20.00
Installation - Data Coupler	20.00
Special Billing Telephone Numbers	10.00

Pay Telephone Stations

Local Messages, each	\$ 0.25
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